

Message Text

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R 111433Z MAY 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 1361
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY ROME
AMEMBASSY TOKYO
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMCONSUL BORDEAUX
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USMTN

PARIS PASS OECD

USEEC

PASS TREASURY, FEDERAL RESERVE, COMMERCE, LABOR

E. O. 11652: N/A

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SUBJECT: FRENCH FINANCIAL AND ECONOMIC DEVELOPMENTS

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REF: PARIS 13756, APRIL 27, L978

SUMMARY:

THERE WERE FEW NEW ECONOMIC INDICATORS DURING THE
REPORTING PERIOD, WHICH INCLUDED TWO HOLIDAYS.

PRICE INCREASES FOR PUBLIC SERVICES WERE EVEN SHARPER THAN EXPECTED WHILE LABOR UNIONS WERE DISAPPOINTED WITH THE MODEST RISE IN THE MINIMUM WAGE.

INSEE EXPECTS INDUSTRIAL ACTIVITY TO GROW UNTIL THE SUMMER, BUT NO DECLINE IN UNEMPLOYMENT.

ON THE PARIS BOURSE AVERAGE STOCK PRICES WERE SLIGHTLY LOWER THAN TWO WEEKS AGO. GOLD MOVED SLIGHTLY UPWARDS, ALONG WITH THE INTERNATIONAL TREND; INTEREST RATES DECLINED FURTHER BY A SMALL FRACTION.

UPON THE PRIME MINISTER'S SUGGESTION, THE FRENCH EMPLOYERS' ASSOCIATION (CNP) ENTERED A ROUND OF INDIVIDUAL DISCUSSIONS WITH LABOR UNIONS' REPRESENTATIVES. PRACTICAL CONSEQUENCES OF THESE TALKS SEEM TO BE A LONG WAY OFF. END SUMMARY

1. RECENT GROWTH IN PRODUCTION WILL NOT HELP EMPLOYMENT

INSEE SUGGESTED THAT THE GOVERNMENT TAKE SPECIAL MEASURES TO HELP EMPLOYMENT. THE RECENT RECOVERY IN INDUSTRIAL ACTIVITY IS NOT SUFFICIENT TO REDUCE UNEMPLOYMENT WHICH MIGHT EVEN CONTINUE TO INCREASE UNCLASSIFIED

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FURTHER DURING THE SECOND QUARTER OF THIS YEAR IN THE ABSENCE OF NEW MEASURES. IN THE SAME ANALYSIS INSEE WARNS THAT THE PERSISTENCE OF A HIGHER INFLATION RATE IN FRANCE THAN AT ITS PRINCIPAL TRADING PARTNERS REPRESENTS A LONG TERM MENACE TO THE FRANC. INDUSTRIAL ACTIVITY IS EXPECTED TO GROW UNTIL THE SUMMER VACATION PERIOD DUE TO INCREASING CONSUMER DEMAND AND REBUILDING OF INVENTORIES. THIS DEVELOPMENT MIGHT CONTINUE THROUGH THE SECOND HALF OF 1978 AS INVESTMENT HAS BEEN ENCOURAGED BY THE RESULTS OF THE MARCH ELECTIONS.

2. INCREASE IN RAILROAD FARES HIGHER THAN EXPECTED.

THE PRESS COMMENTED WIDELY THAT WHILE A FLAT INCREASE OF 15 PERCENT IN RAILROAD FARES FOR PASSENGERS HAD ORIGINALLY BEEN ANNOUNCED, SEASON AND COMMUTATION TICKETS WERE INCREASED BY 25 PERCENT AND CHEAP WEEKEND AND SUNDAY EXCURSION TICKETS WERE ABOLISHED ALTOGETHER.

3. GASOLINE PRICES TO INCREASE

AS PROVIDED FOR IN THE FRENCH BUDGET, GASOLINE PRICES
ARE SCHEDULED TO INCREASE BY ABOUT 7 PERCENT
EFFECTIVE JUNE 1. IT NOW IS ENVISAGED THAT ANOTHER
INCREASE OF ABOUT 2 1/2 PERCENT WOULD BECOME EFFECTIVE
IN JULY TO HELP FINANCE MEASURES TO ENCOURAGE

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R 111433Z MAY 78
FM AMEMBASSY PARIS
TO SECSTATE WASHDC 1362
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EMPLOYMENT.

IT IS ALSO NOW RUMORED THAT THE GOVERNMENT NOW
ENVISAGES A NUMBER OF PARAFISCAL MEASURES, SUCH AS AN
INCREASE IN ALCOHOL AND LOTTO TAXES AND SIDE-TRACKING
PART OF THE ONE PERCENT WAGE TAX NOW EARMARKED TO
FINANCE HOUSING CONSTRUCTION, IN ORDER TO FIND NEW
RECEIPTS FOR EMPLOYMENT PROGRAMS.

4. MINIMUM WAGE INCREASED BY 3.9 PERCENT

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THE FIRST OF THREE INCREASES SCHEDULED THIS YEAR FOR THE MINIMUM WAGE WAS 3.9 PERCENT EFFECTIVE MAY 1. THIS PROVIDES THE LOWEST PAID WAGE EARNERS WITH A RISE OF 1.1 PERCENT IN REAL PURCHASING POWER. THE MINIMUM HOURLY WAGE IS NOW FRANCS 10.45 PER HOUR (F 1,811 PER MONTH FOR A 40-HOUR WORKWEEK), UP FROM F 10.06 PER HOUR (F 1,743 PER MONTH). SOME 700,000 WORKERS ARE PAID AT THE MINIMUM WAGE LEVEL.

IT IS RECALLED THAT THE LEFT WING LABOR UNIONS TOGETHER WITH THE OPPOSITION PARTIES HAD PROMISED AN IMMEDIATE INCREASE MINIMUM WAGE TO F2,400 DURING THE ELECTION CAMPAIGN. LABOR EXPECTED A BIGGER INITIAL INCREASE FOR THE LOWEST PAID. THE PRESENT NEGOTIATIONS BETWEEN THE LABOR UNIONS AND THE PATRONAT MAY LEAD TO DIFFERENT MINIMUM WAGES FOR DIFFERENT INDUSTRIAL SECTORS. BUT THE POST-ELECTORAL DETENTE COULD BE SUBJECT TO RENEWED TENSIONS DUE TO THE SHARP RISES FOR PUBLIC SECTOR PRICES AND THE MODEST INCREASE IN THE MINIMUM WAGE. SOCIALIST LEADER MITTERRAND ALREADY REQUESTED A DEBATE ON THIS SUBJECT IN THE NATIONAL ASSEMBLY.

5. GROWTH RATE IN HOUSING CONSTRUCTION DECLINED

ACCORDING TO A BANK OF FRANCE SURVEY, ONLY 465,000 HOUSING STARTS WERE REGISTERED IN 1977, DOWN BY 6 PERCENT FROM 492,000 IN 1976, CONTINUING THE TREND THAT BEGAN IN 1974. NO IMPROVEMENT IN THIS TREND IS EXPECTED IN 1978, AS PERMITS TO START NEW DWELLINGS

WERE DOWN BY 16 PERCENT IN 1977, WHICH ALSO EXPLAINS PART OF THE REASON FOR THE SLOW GROWTH OF TOTAL
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INVESTMENT, SINCE HOUSEHOLD INVESTMENT ACCOUNTS FOR ABOUT 30 PERCENT OF TOTAL INVESTMENT IN FRANCE.

THE DECLINE WAS PARTICULARLY SHARP IN HOUSING STARTS OF APARTMENT DWELLINGS (MINUS 18 PERCENT), WHILE CONSTRUCTION OF INDIVIDUAL HOUSES CONTINUED TO DEVELOP

FAVORABLY.

THE OVERALL DROP IS ASCRIBED TO THE GENERAL ECONOMIC SITUATION AND THE RELATIVE STAGNATION OF REAL INCOME, AND NOT TO THE DEMOGRAPHIC SITUATION OR A QUANTITATIVE DECLINE IN REQUIREMENTS.

6. CREDIT RESTRICTIONS TO CONTINUE

THE GOVERNMENT APPEARS TO CONTINUE ITS POLICY OF RESTRICTING CREDIT, AT LEAST THROUGH THE SUMMER. ECONOMIC MINISTER MONORY STATED IN AN INTERVIEW THAT MONETARY POLICY WOULD CONTINUE TO BE RIGOROUS. IT WOULD BE DANGEROUS TO INJECT CREDIT INTO THE ECONOMY AND MAINTAIN A HEALTHY PRICE POLICY AT THE SAME TIME. THUS HE WOULD STRICTLY ADHERE TO HIS GOAL TO LIMIT GROWTH IN MONEY SUPPLY TO 12 PERCENT IN 1978.

7. INTEREST RATES DECLINED FRACTIONALLY

INTEREST RATES IN THE MONEY MARKET DECLINED FRACTIONALLY TO 8 PERCENT (DOWN FROM 8 1/4 TWO WEEKS AGO) FOR CALL MONEY.

RATES FOR:

ONE MONTH 8 1/16 - 8 1/8
THREE MONTHS 8 1/4 - 8 3/8
SIX MONTHS 8 3/8 - 8 1/2

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R 111433Z MAY 78
FM AMEMBASSY PARIS
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TWELVE MONTHS 8 5/8 - 8 3/4

THE PRIME RATE STILL STANDS AT 9:30 PERCENT; A DECLINE
OF AT LEAST 1/2 PERCENT IS EXPECTED SHORTLY.

8. UPWARD MOVEMENT ON BOURSE INTERRUPTED

AVERAGE PRICES FOR SHARES WERE SLIGHTLY LOWER THAN TWO
WEEKS AGO. ON THE OTHER HAND, NEW BOND ISSUES FIND
AGAIN A READY MARKET. AN ELECTRICITE DE FRANCE ISSUE
OF 1 1/2 BILLION AT 10.8 PERCENT WAS SUBSCRIBED IN ONE
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DAY. OTHER SMALLER ISSUES ALSO ARE SAID TO BE LODGED
MORE EASILY THAN TWO WEEKS AGO.

AT THE GOLD MARKET, PRICES MOVED UPWARD ALONG WITH THE
INTERNATIONAL TREND TO \$175.20 PER OUNCE ON MAY 8
(LONDON 172.20) WITH THE VOLUME INCREASING SOMEWHAT
(F 8 1/2 MILLION).

9. FOREIGN BORROWING

A U.S. \$200 MILLION REVOLVING CREDIT TERM LOAN BY
PEUGEOT-CITROEN WAS ADVERTISED IN THE PRESS DURING THE
REPORTING PERIOD, AND \$75 MILLION 9 PERCENT U.S. \$
BEARER BONDS 1978/1993 BY THE CAISSE NATIONALE DES
TELECOMMUNICATIONS (CNT), GUARANTEED BY THE STATE.

10. NET BOND ISSUES DROPPED SHARPLY IN FIRST QUARTER

THE VOLUME OF NEW ISSUES DURING THE FIRST QUARTER OF 1978 WAS 30 PERCENT BELOW THE FIRST QUARTER OF 1977, F9.5 BILLION AGAINST F13.7 BILLION. ONLY 13 PERCENT WERE PRIVATE SECTOR ISSUES. THE MARKET WAS DEPRESSED BY THE FORTHCOMING GENERAL ELECTIONS.

THE SITUATION WAS SUBSEQUENTLY REVERSED BY THE REVIVAL OF NEW ISSUES BEGINNING MARCH 28 (SEE PREVIOUS ISSUES OF BIWEEKLY DEVELOPMENTS).

11. INDUSTRIAL WHOLESALE PRICES SLOWED TO 0.4 PERCENT IN MARCH

INDUSTRIAL WHOLESALE PRICES (1962 EQUALS 100) WERE 219.6 IN MARCH, ONLY 0.4 PERCENT OVER FEBRUARY AND 0.9 PERCENT UNCLASSIFIED

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OVER MARCH 1977. IN FEBRUARY THEY HAD RISEN BY 0.9 PERCENT.

12. SMALL INCREASE IN AVERAGE FARM INCOME

ACCORDING TO INSEE, REAL AVERAGE FARM INCOME INCREASED BY 1.7 PERCENT IN 1977, MUCH LESS THAN PREVIOUSLY ESTIMATED. SINCE 1970, REAL AVERAGE FARM INCOME ROSE BY 22 PERCENT.

13. NEW MEASURES TAKE SHAPE

ON WEDNESDAY, MAY 10, THE FRENCH CABINET APPROVED NEW EXPENDITURES IN THE AMOUNT OF F4.3 BILLION WHICH WILL BE PRESENTED TO THE NATIONAL ASSEMBLY IN THE FORM OF A SUPPLEMENTARY BUDGET. IT IS LIKELY THAT OTHER SUPPLEMENTARY BUDGETS WILL BE ESTABLISHED SUBSEQUENTLY. MORE THAN 80 PERCENT OF THE NEW EXPENDITURES (F3.5 BILLION ARE TO FINANCE THE CONTINUATION OF THE EMPLOYMENT MEASURES TO ENCOURAGE EMPLOYMENT OF THE YOUNG WHICH WERE PUT INTO EFFECT LAST YEAR. F0.7 BILLION ARE TO FINANCE OTHER MEASURES TO ENCOURAGE EMPLOYMENT AND F0.1 BILLION TO INDEMNIFY POLLUTION VICTIMS OF THE AMOCO CADIZ OIL SPILL.

AS OUTLINED BEFORE THE NEW EXPENDITURES WILL PRINCIPALLY BE FINANCED FROM AN INCREASE IN GASOLINE AND RELATED TAXES. GASOLINE PRICES ARE NOW SCHEDULED TO RISE BY AN AVERAGE OF 11 PERCENT, GAS-OIL BY 11.7 PERCENT. THERE ALSO WILL BE AN INCREASE OF 10 PERCENT (FROM 1 PERCENT TO 1.1 PERCENT) IN THE WAGE TAX.

14. NEW STATE LOAN

AT THE SAME COUNCIL OF MINISTERS' MEETING THE GOVERNMENT
DECIDED TO FLOAT A F3 BILLION 15-YEAR STATE LOAN AT 10
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PERCENT INTEREST TO BE PUT ON THE MARKET ON MAY 22. OB-
VIOUSLY THE TIMING IS WELL CHOSEN (SEE ITEM 8). ALSO,
THIS BOND ISSUE WILL HELP FINANCE THE BUDGET DEFICIT

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R 111433Z MAY 78
FM AMEMBASSY PARIS
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THROUGH SAVINGS.

OTHER REPORTS SUBMITTED DURING THE PERIOD:

TELEGRAMS

14451 EXIMBANK DIRECTOR VISIT TO PARIS
14296 VISIT BY LIBRARY OF CONGRESS OFFICIAL
14031 CERP 2343 - BUREAU OF MINT INTERROGATORY
14185 VISIT BY LIBRARY OF CONGRESS OFFICIAL
13684 CARIBBEAN GROUP DONORS MEETING

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AIRGRAMS

A-115 FRENCH FOREIGN EXCHANGE HOLDINGS
A-119 TRADE WITH COMMUNIST AREAS, CERP 1211
A-120 FRENCH FOREIGN EXCHANGE HOLDINGS
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